

CHAPTER 1

Introduction

Purpose and Organization of the Report

This report is the 55th in a series of reports submitted to the U.S. Congress under section 163(c) of the Trade Act of 1974 and its predecessor legislation.¹ The report is one of the principal means by which the U.S. International Trade Commission (USITC or the Commission) provides Congress with factual information on trade policy and its administration in calendar year 2003. The report also serves as a historical record of the major trade-related activities of the United States to be used as a general reference by government officials and others with an interest in U.S. trade relations. The trade agreements program includes “all activities consisting of, or related to, the administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution” and congressional legislation.²

Chapter 1 summarizes selected trade events and trade agreements activities during the year as discussed in more detail elsewhere in the report, and provides an overview of the international economic environment in 2003. Chapter 2 discusses the administration of U.S. trade laws and regulations. Chapter 3 focuses on the activities of the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), and the Asia Pacific Economic Cooperation (APEC) forum. Chapter 4 discusses free trade agreements (FTAs) in which the United States negotiated or was negotiating during 2003. This chapter provides a summary table of U.S. FTAs as of December 31, 2003 and provides information on selected 2003 FTA agreements and negotiations including North American Free Trade Agreement (NAFTA), the U.S.-Morocco FTA, Free Trade Area of the America FTAA, and the U.S.-Australia FTA. Chapter 5 focuses on selected trade-related activities between the United States and its major trading partners—the European Union (EU), Canada, Mexico, Japan, China, Taiwan, Korea, and Brazil. The final section of the report contains a statistical appendix.

¹ Section 163(c) of the Trade Act of 1974 (19 U.S.C. 2213(c)) states that “the International Trade Commission shall submit to the Congress at least once a year, a factual report on the operation of the trade agreements program.”

² The White House, Executive Order No. 11846, Mar. 25, 1975.

Summary of Trade Agreements Activities in 2003

In 2003, U.S. trade agreements activities included the administration of U.S. laws and regulations; U.S. participation in the WTO, the OECD and APEC; U.S. negotiation of and participation in FTAs, including the NAFTA; and bilateral developments with major trading partners. Highlights of key trade agreements activities, including some which are discussed in more detail in this report, are presented in table 1-1. A summary of the major information contained in each chapter of the report follows.

Table 1-1
Summary of 2003 trade agreements activities

Date	Event
January	
2	The U.S. Department of State announces a settlement with Hughes Electronics Corporation and Boeing Satellite Systems Inc. for illegally providing satellite and rocket technology in 1995 to China in violation of export control laws.
8	The WTO Dispute Settlement Body establishes dispute-settlement panel for Canada's complaint against U.S. antidumping duties on imports of softwood lumber from Canada.
13	The United States and the Southern African Customs Union (SACU) initiate free trade agreement (FTA) negotiations. SACU includes Botswana, Lesotho, Namibia, South Africa, and Swaziland.
13	The President announces the designation of Afghanistan as a beneficiary developing country under the U.S. Generalized System of Preferences (GSP).
15	President Bush requests Congress to extend the African Growth and Opportunity Act (AGOA) beyond its current 2008 expiration date.
16	The WTO Appellate Body upholds panel ruling that the U.S. Continued Dumping and Subsidy Offset Act of 2000 (the so-called Byrd Amendment) violates WTO rules. The Byrd Amendment provides for the U.S. Government to distribute the antidumping and anti-subsidy duties to the U.S. companies that filed or supported the original petition.
21	The United States and Morocco initiate FTA negotiations.
21	The United States and Mexico sign an agreement that protects Mexican poultry farmers from temporarily reduced import barriers under the North American Free Trade Agreement (NAFTA).
February	
7	The United States and India agree to expand high-technology trade.
17	Legislation is introduced in the U.S. Congress to provide Haiti duty-free access to the U.S. textile market.
18	The WTO establishes a dispute-settlement panel requested by Brazil to consider whether the U.S. support program for subsidies to producers of upland cotton violates WTO rules.
21	U.S.-Morocco FTA negotiations begin.

Table 1-1—*Continued*
Summary of 2003 trade agreements activities

March	
6	The United States requests establishment of a WTO dispute-settlement panel to consider whether certain Canadian measures relating to the export of wheat and treatment of imported grain are inconsistent with WTO rules.
17	The United States and Canada reach an agreement for Canada to end exporting subsidized dairy products to the United States and limit subsidized dairy exports to third countries.
26	A WTO Appellate Body ruling upholds its previous finding against Japan's restriction on U.S. apples.
27	The United States and Canada agree on a rail border plan that further enhances security at their borders.
April	
14	A WTO dispute-settlement panel rejects Japan's complaints against U.S. antidumping duties imposed on Japanese corrosion-resistant flat carbon steel products.
19	The WTO establishes a dispute-settlement panel to decide whether an expedited U.S. sunset review of antidumping measures regarding oil country tubular goods from Argentina is consistent with WTO antidumping agreements.
17	The United States and Vietnam sign a textile agreement that increases the cap on U.S. textile imports from Vietnam to approximately \$1.7 billion.
May	
1	United States lifts economic sanctions against Angola.
6	President Bush signs U.S.-Singapore FTA.
7	The WTO Dispute Settlement Body (DSB) authorizes the EU to impose countermeasures on U.S. products valued at a maximum \$4.043 billion per year as compensation in the dispute over the U.S. Foreign Sales Corporations/Extraterritorial Income Exclusion Act of 2000.
12	President Bush announces that the United States and Bahrain will negotiate an FTA to begin in 2004.
13	The United States requests WTO consultations with the EU, the first step in the WTO dispute-settlement process, over the EU's moratorium on new approvals of agricultural biotechnology products.
22	The United States and Russia agree on the parameters for market access for U.S. poultry, pork, and beef when Russia joins the WTO.
29	The WTO panel upholds in part U.S. determination that the Canadian stumpage program (fees imposed on foresters for cutting on public lands) subsidizes Canada's lumber industry.

Table 1-1—*Continued*
Summary of 2003 trade agreements activities

June	
2	The United States, Canada, and Mexico agree to expand NAFTA's transparency in dispute-settlement procedures and revise chapter 11 investor-state arbitration provision.
6	The U.S.-Chile FTA is signed.
10	The Bush administration announced that the African Growth and Opportunity Act trade preferences program needs to be extended beyond 2008 and enhanced to encourage more U.S. investment and trade with the sub-Saharan African countries.
11	A WTO dispute-settlement panel formed at the request of the EU, Japan, South Korea, China, Switzerland, Norway, New Zealand, and Brazil finds that the U.S. section 201 safeguard measures on certain steel products was inconsistent in certain respects with obligation under WTO Safeguard Agreement.
July	
11	The United States appeals a WTO dispute-settlement panel ruling that Section 201 steel safeguard duties are inconsistent with U.S. WTO obligations.
15	President Bush submits legislation for bilateral FTAs with Singapore and Chile.
26	The WTO Appellate Body upholds-panel finding that Japan's ban on imports of apples from the United States has no scientific basis.
21	The U.S. Department of Agriculture announces the end of import restrictions on certain Canadian beef that were put in place on May 20, 2003, owing to the discovery of BSB.
28	The United States imposes economic sanctions against Burma.
31	Two day consultations begin with respect to Mexico's antidumping measures on U.S. beef and long-grain white rice.
August	
13	A NAFTA dispute-settlement panel supports the United States' claim that Canadian softwood lumber imports are subsidized. However, the panel remands to the U.S. Department of Commerce (DOC) regarding the method by which DOC calculated margins.
13	The United States and European Union present a joint proposal for a framework agreement on agriculture during the Doha multilateral trade negotiations.
28	President Bush signs Singapore and Chile FTA legislation.
29	WTO members agree to exempt developing countries from TRIPS patent provisions for HIV/AIDS, tuberculosis, and malaria drugs.
September	
2	The United States requests Saudi Arabia to lower its import tariffs and to open its market for insurance, financial services, telecommunication, and audio-visual services.
21	The United States appeals a WTO panel decision on a U.S. final countervailing duty determination against Canadian softwood lumber imports.

Table 1-1—*Continued*
Summary of 2003 trade agreements activities

October	
2	The WTO establishes a dispute-settlement panel to examine the EU's rules on the protection of trademarks and geographical indications for agricultural products and foodstuffs in response to a request from the United States and Australia.
November	
7	The WTO establishes a dispute-settlement panel to review a U.S. challenge to Mexico's antidumping order on long-grain white rice.
10	The WTO Appellate Body upholds the overall panel ruling that U.S. Section 201 safeguard measures on certain steel products are inconsistent with U.S. obligations under the WTO Safeguard Agreement.
18	USTR notifies Congress of the intent to initiate negotiations for an FTA with a bloc of Andean countries (Colombia, Peru, Ecuador and Bolivia).
December	
3	President Bush announces that the United States will terminate Section 201 safeguard duties on steel imports.
5	The United States Trade Representative and Australian Trade Minister announce extension of U.S.-Australia FTA negotiations.
17	The United States announces the conclusion of an FTA with El Salvador, Guatemala, Honduras and Nicaragua (CAFTA). Details of some textile provisions, rules on appealing investment decisions and the structure of a citizen-based petition process for environmental issues remain open.
30	President Bush designates Angola as eligible for AGOA, while terminating the AGOA eligibility designation of Eritrea and the Central African Republic from .
30	President Bush declares the U.S.-Chile and U.S.-Singapore FTAs will enter into effect on January 2, 2004.
31	Mexico's Congress votes to continue a consumer tax on soft drinks, which contain high-fructose corn syrup (HFCS), extending barrier to HFCS imports from the United States.

Sources: Compiled by the Commission from information from the World Trade Organization, *Washington Trade Daily*, *Inside U.S. Trade*, and press releases from the Office of the U.S. Trade Representative, U.S. Department of Commerce, the State Department, and the White House.

Administration of U.S. Laws and Regulations

The following developments in U.S. trade programs occurred during the year 2003:

- During 2003, all three U.S. global safeguard measures in effect at the beginning the year were either terminated by the President (certain steel products) or allowed to expire (steel wire rod and steel line pipe). No new U.S. safeguard measures were applied during 2003 under any of the U.S. safeguard laws administered by the Commission, and no petitions were pending at year-end 2003. However, one Commission China safeguard recommendation was pending before the President at year-end 2003.

- The U.S. Department of Labor instituted 3,561 Trade Adjustment Assistance (TAA) investigations during FY 2003. The FY 2003 figure represents an increase from the 2,404 TAA petitions instituted during FY 2002. The number of completed TAA cases increased from 2,806 cases in FY 2002 to 3,583 cases in FY 2003, covering 196,112 workers. A new program, the TAA for Farmers, administered by the Department of Agriculture was established. Which provides technical assistance and cash benefits to eligible producers of raw agricultural commodities.

The U.S. Department of Commerce (Commerce) certified 207 firms as eligible to apply for trade adjustment assistance during FY 2003, an increase from the 107 firms certified in the previous year.

- Following final affirmative determinations by the Commission and the U.S. Department of Commerce, 15 new antidumping orders and six new countervailing duty orders were issued in 2003.
- The Commission's section 337 caseload continued to be dominated by investigations involving complex technologies, particularly in the computer and telecommunications field. During 2003, there were 37 active section 337 investigation proceedings, 19 of which were instituted in 2003. The Commission completed a total of 18 investigations and ancillary proceedings under section 337 in 2003, including one combined enforcement and advisory opinion proceeding relating to a previously concluded investigation. Three exclusion orders and four cease-and-desist orders were issued during 2003.
- The GSP program expired on September 30, 2001, and was extended retroactively through December 31, 2006. During 2003, several actions were taken by USTR including the extension of the deadline for submission of petitions for the 2003 Annual GSP Product and Country Eligibility Practices Review to September 3, 2003 and the initiation of a review to consider the designation of Algeria as a beneficiary developing country under the GSP.
- On December 30, 2003, the President approved the continued designation of 36 sub-Saharan countries as eligible for tariff preferences under AGOA. The President further determined that Angola should be designated as an AGOA beneficiary country. Two countries, Eritrea and the Central African Republic, did not continue to meet AGOA eligibility requirements and were dropped from the list of eligible countries.
- The Andean Trade Preference Act (ATPA) was amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), as part of the Trade Act of 2002. ATPDEA extended the program to December 31, 2006, and expanded it to provide duty-free treatment for certain products previously excluded from eligibility for duty-free treatment, including certain textiles and apparel, footwear, petroleum and petroleum derivatives, watches and watch parts, and certain tuna packaged in foil or other flexible airtight packages

(not cans). U.S. imports from ATPA countries increased 21 percent to \$11.6 billion in 2003 from \$9.6 billion in 2002.

- In 2003, eligible imports from 24 countries and territories in the Caribbean Basin and Central America entered the United States free of duty or at reduced duties under the Caribbean Basin Economic Recovery Act (CBERA). Unlike the ATPA program, the CBERA program has no statutory termination date. The United States-Caribbean Basin Trade Partnership Act (CBTPA), enacted on May 18, 2000, expanded the coverage of preferential tariff treatment to several articles previously excluded under the original CBERA, including certain apparel. CBERA imports increased to \$10.4 billion in 2003 from \$10.0 billion in 2002.
- In 2003, the United States had quotas on textiles and apparel from 46 countries, which accounted for 79 percent of U.S. imports of such goods by value. As required by the WTO Agreement on Textiles and Clothing (ATC), the United States is scheduled to eliminate all remaining quotas on such goods from 37 WTO countries on January 1, 2005.

World Trade Organization

In 2003, multilateral trade negotiations under the Doha Development Agenda (DDA) worked toward a mid-term review of progress at the WTO Fifth Ministerial Conference held in September 2003 in Cancun, Mexico. Instead of setting specific terms or “negotiating modalities” at the conference for individual negotiating groups to allow them to move toward the scheduled January 2005 conclusion, the conference reached an impasse, initially over agricultural subsidy reductions and later over new trade-related issues known as the “Singapore issues.” For the remaining months in 2003, the WTO Director-General and General Council chairman held consultations with members on how to resume negotiations under the DDA.

Organization for Economic Cooperation and Development

In 2003, the OECD Trade Committee worked largely to support the multilateral trade negotiations being held under the WTO Doha Development Agenda, both leading up to and following the WTO Fifth Ministerial Conference.

Asia Pacific Economic Cooperation

At the 2003 APEC Ministerial held in Bangkok, Thailand, APEC ministers discussed how to reinvigorate the WTO Doha negotiations, how to address regional security challenges and infectious diseases. The ministers recognized APEC's capacity building contributions and reaffirmed the importance of WTO capacity building activities in the future. APEC ministers took actions in other areas regarding structural reform; trade and investment liberalization and facilitation; Individual and Collective Action Plans; Pathfinder initiatives; APEC Business-Government Dialogues; Economic and Technical Cooperation and Capacity Building; intellectual property rights, cybersecurity, electronic commerce; e-learning; Severe Acute Respiratory Syndrome (SARs); social safety nets and workforce retraining; financial architecture; economic research and analysis; and small- and medium-sized enterprises (SMEs) and micro-enterprises.

U.S. Free Trade Agreements

The United States participated in five operative free trade agreements (FTAs) as of December 31, 2003: the U.S.-Israel FTA of 1985, the NAFTA of 1994; the U.S.-Jordan FTA of 2000; the U.S.-Chile FTA of 2003, and the U.S.-Singapore FTA of 2003. In 2003, the President notified Congress of his intention to launch FTA negotiations with Australia and Bahrain. In addition, the Administration launched negotiations with the countries of the South African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland). Also, in 2003, the United States continued the negotiations begun in 1994 with 34 other democratic countries of the Western Hemisphere toward the creation of the Free Trade Area of the Americas (FTAA).

Bilateral Trade Relations

European Union

Two important long-term trade disputes remained on the U.S.-EU trade agenda in 2003 and were still unresolved at the end of the year: U.S. tax policy on foreign sales corporations; and the EU biotech moratorium. The WTO dispute-settlement process continued in response to EU complaints and WTO rulings that U.S. special tax treatment of foreign sales corporations (FSCs), and the replacement U.S. tax policy, constitute a prohibited export subsidy. In May 2003 the WTO Dispute Settlement Body authorized the EU to take countermeasures valued at \$4.043 billion per year, in line with the arbitration report issued in August 2002. In December 2003, the EU adopted a regulation to impose an additional tariff of 5 percent ad valorem on U.S. products on March 1, 2004, followed by automatic 1 percentage point increases in each month thereafter until March 1, 2005, or until the United States complies with the WTO ruling.

The EU's de facto moratorium on agricultural biotechnology approvals continued during 2003, disrupting U.S. exports of corn and threatening U.S. exports of

soybeans. In May, the United States filed a WTO dispute-settlement complaint against the biotech moratorium. The United States is also monitoring two regulations the EU approved in 2003 on the traceability and labeling of biotech products and on biotech food and feed.

Canada

In 2003, Canada remained the second largest U.S. trading partner surpassed only by the European Union. NAFTA is a three party agreement which includes Mexico. The U.S.-Canada bilateral trading relationship is largely governed by NAFTA. On October 7, 2003, the NAFTA Free Trade Commission agreed to pursue further liberalization of the NAFTA rules of origin, and also agreed to commence a study of the most favored nation (MFN) tariffs of each of the parties. In the case of the NAFTA rules of origin, the NAFTA provides for preferential tariff and trade treatment of goods of U.S., Canadian, and Mexican origin, pending successful completion of the general NAFTA rules of origin requirements as outlined in section 202 of the North American Free Trade Implementation Act. Since the NAFTA entered into force, the parties have modified many of the rules of origin, conforming them to tariff classification changes, thus making them less restrictive and less burdensome to administer. With respect to the tariff harmonization study, since 1994 the parties have undertaken four separate tariff-cut acceleration exercises, speeding the elimination of tariffs on several hundred line items that have covered billions of dollars in trade. Under NAFTA article 308, the three countries harmonized at zero tariff rates for computers/computer parts, local area network equipment, and semiconductors. The U.S. and Canada have indicated an intent to consult with their national industries to determine whether more products might be covered by this exercise.

Mexico

Mexico maintained its position in 2003 as the third-largest U.S. trading partner after the European Union and Canada, and before China. Agricultural imports from the United States and their possible adverse effects on Mexican farming interests, as perceived by Mexico, continued to be an important issue in U.S.-Mexican trade relations. The year 2003 brought no major changes with respect to some long-standing bilateral economic concerns, including bilateral trade in sweeteners, and U.S. implementation of NAFTA cross-border trucking provisions.

Japan

The main forum for discussion of U.S.-Japan trade issues in 2003 was the U.S. Economic Partnership for Growth. The purpose of the partnership, launched in 2001, is to promote economic growth and open markets by focusing on sectoral and cross-sectoral issues related to regulatory and competition policy. In 2003, the United States submitted reform recommendations to Japan under the U.S.-Japan Regulatory Reform and Competition Policy Initiative. The recommendations focused on areas such

as telecommunications, information technologies, medical, energy, and competition policy. There were also bilateral discussions in the Investment Initiative, the Financial Dialogue and the Trade Forum.

China

The principal focus of the U.S.-China trade relationship in 2003 was China's compliance with the terms of its WTO accession. Major areas of U.S. concern were agriculture, services, enforcement of intellectual property rights, transparency of government regulations, and certain value-added tax policies. Other issues during the year included U.S. proceedings under two separate safeguard mechanisms established in China's WTO accession agreement: the China-specific safeguard mechanism and the special textile safeguard mechanism.

Taiwan

During 2003, Taiwan continued to make significant progress in a number of IPR areas, especially in IPR-related enforcement actions. An Integrated Enforcement Task Force (IETF) was created during 2003 to join forces with the Joint Optical Disk Enforcement Tasks Force (JODE) to crack down on optical disc media piracy. JODE inspected over 1,000 factories during the year and IETF made between 300-400 inspections per month. Taiwan's enforcement authorities, in cooperation with Microsoft, also conducted raids that led to arrests against criminal syndicates suspected of producing, marketing, and distributing counterfeit software. Taiwan's Intellectual Property Office has proposed a registration system to simplify power of attorney requirements in Taiwan. However, piracy is considered to be high and Taiwan remained on USTR's Priority Watch List in for problems associated with protecting intellectual property rights in 2003. Even though the legislative Yuan passed an amendment to the copyright law that made intellectual property violations a public crime, Taiwan still lacks an effective copyright law.

Korea

U.S.-Korean trade relations in 2003 reflected the continued relaxation of trade frictions in recent years. The two countries meet regularly to discuss bilateral trade issues. Significant bilateral trade issues between the United States and Korea during 2003 included intellectual property rights protection and telecommunications.

USTR conducted an out-of-cycle Special 301 Review relating to IPR protection in the fall of 2003, based on concerns expressed in the Special 301 Report issued in May 2003. The United States continued to express concerns that Korea is inclined to mandate telecommunications technology standards in Korea rather than allow market forces to determine successful technologies. Korea has delayed mandating such standards while consulting with the United States and WTO bodies.

Brazil

Brazil continued to participate in the Southern Common Market (Mercosur) and in the ongoing negotiations for the Free Trade Area of the Americas (FTAA). A major bilateral issue in 2003 was Brazil's approval process for biotechnology imports, which remains an obstacle to trade in this area. Another issue is deficiencies in Brazil's enforcement of intellectual property rights, despite some actions towards addressing U.S. concerns.

International Economic Environment in 2003

Following a hesitant recovery in 2002, the world economy grew at 3.2 percent in 2003 compared to 3.0 percent in 2002. The recovery was supported by the strengthening of consumer and investment spending and by accommodative monetary and fiscal policies.³

Table 1-2 shows comparative indicators of the United States and selected U.S. trading partners for 2003 and estimates for 2004, according to the OECD and the International Monetary Fund (IMF). In the OECD area, a recovery took hold led by strong growth in North America, Asia, and several EU countries. The OECD forecast for 2004 and 2005 is one of sustained growth and progressive recovery in the United States, Europe, and Asia, combined with low inflation and a gradual reduction in unemployment. Real GDP grew by 3.0 percent for the total OECD area. World trade is projected to grow 4.0 percent in 2003.⁴

United States

Among the developed economies, the U.S. economy fared relatively well in 2003, growing by 3.1 percent. The IMF projects faster growth in the United States in 2004. Moreover, the Council of Economic Advisers noted that the U.S. economy continues to display characteristics favorable to long-term growth. Productivity remains strong, and inflation remains low and stable. The pace of growth is expected to be slow initially; following growth of 3.1 percent in 2003, the Council forecasts growth rates of U.S. real GDP at 4.0 percent in 2004 and 3.4 percent in 2005. Consumer prices rose by 1.9 percent in 2003. The unemployment rate was 6.0 percent in 2003.⁵ Also, the Federal Reserve Board of Governors, in its February 2004 monetary policy report to the Congress, said that the economic expansion will continue at a brisk pace in 2004. The Board based this view on reports of plans for stronger capital spending and widespread economic activity across the regions. Reviewing economic expansion in the United States during 2003, the Board said that "accommodative financial

³ The 2003 economic statistics in this section are presented as actual but could be subject to revision. The 2004 statistics are projected by the IMF, OECD, and CEA.

⁴ OECD, "Making the Most of the Recovery, and the Table of Summary of Projections," Economic Outlook, vol. 2003/2, no.74, Dec. 2003.

⁵ Economic Report of the President, February 2004, p. 98, table 3-1.

Table 1-2
Comparative economic indicators of the United States and specified major trading partners, projections, 2003-04

Country	Real GDP		Inflation rates ¹		Unemployment rates ²		Governments' budget balances ³		Goods & services trade balances		Current account balances ⁴	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
	Percent change from previous period				Percent of GDP		Billion dollars		Percent of GDP			
Major traders:												
United States	3.1	4.6	2.3	1.7	6.0	5.5	-4.9	-5.1	-496.5	-526.5	-5.0	-5.0
Canada	1.7	2.6	2.7	1.4	7.8	7.8	1.0	0.7	36.9	39.6	2.1	1.8
Japan	2.7	3.4	-0.2	-0.2	5.3	5.2	-7.4	-6.8	60.5	84.0	2.9	3.6
Germany	0.0	1.4	0.9	0.8	8.9	9.1	-4.1	-3.7	95.9	116.6	2.1	2.8
United Kingdom	2.3	3.5	2.8	2.6	5.0	4.9	-2.9	-2.9	-57.7	-69.6	-2.7	-3.5
France	0.2	1.6	2.0	1.4	9.6	9.8	-4.0	-3.7	19.5	21.0	0.9	1.0
Italy	0.5	1.6	2.7	2.0	8.9	8.9	-2.7	-2.9	2.2	-0.6	-1.2	-1.2
Euro area	0.4	1.7	1.9	1.7	9.1	8.9	-2.7	-2.6	169.1	195.0	0.6	0.7
Mexico	1.5	3.6	4.5	4.3	3.0	3.0	(⁵)	(⁵)	-11.7	-16.5	-1.5	-2.0
Total OECD	2.0	3.0	1.8	1.4	7.1	7.0	-3.8	-3.8	-249.4	-245.4	-1.4	-1.3
China	9.1	8.5	1.2	3.5	(⁵)	(⁵)	-2.9	-2.8	(⁵)	(⁵)	2.1	1.6
Hong Kong	3.3	5.5	-2.6	-0.5	7.9	6.4	-3.6	-3.0	20.0	20.5	11.0	10.3
Korea, Rep. of	2.7	4.7	3.5	3.7	3.4	3.3	3.5	4.0	7.2	5.4	2.0	1.5
Singapore	1.1	5.0	0.5	1.2	4.7	4.2	4.1	6.7	(⁵)	(⁵)	30.9	28.0
Taiwan	3.2	4.9	-0.3	0.7	5.0	5.0	-4.4	-2.5	9.8	14.4	10.0	7.3
Brazil	0.5	3.0	10.0	7.0	(⁵)	(⁵)	-4.0	-3.0	(⁵)	(⁵)	0.0	-1.0
Russia	6.3	5.0	13.0	11.0	(⁵)	(⁵)	1.0	0.5	(⁵)	(⁵)	8.5	5.5

¹ GDP deflator, private consumption deflators and/or retail prices percent change from previous year.

² Percentage of total labor force.

³ Financial balances as a percentage of nominal GDP.

⁴ Surplus (+), deficit (-) given as a percentage of GDP.

⁵ Not available.

Note.—2003 data are actual but might be subject to revisions and 2004 data are projections of the IMF and OECD; however, GDP, inflation, unemployment rates, and merchandise trade balance for the United States in 2003 are actual. N/A= not available. Column does not add to total due to the omission of other OECD members.

Source: OECD, *World Economic Outlook*, vol. 74, Dec. 2003/2 Annex table 1; IMF, *World Economic Outlook*, Apr. 2004; and official statistics of the U.S. Department of Commerce.

market conditions, including higher equity prices, narrower risk spreads bonds, and eased standards on business loans, also seemed supportive of economic expansion.”⁶

Recently published data by the Bureau of Economic Analysis (BEA) of the Department of Commerce also show that the U.S. economy grew at a strong pace in 2003, while unemployment and core inflation rates remained relatively low in 2003. U.S. real GDP grew at annual rates of 8.2 percent in the third quarter and 4.1 percent in the fourth quarter. GDP increased 3.1 percent overall in 2003. The major contributors to the increase in real GDP in 2003 were personal consumption expenditures which increased 3.1 percent, gross private domestic investment which increased by 4.1 percent after declining 1.2 percent in 2002, and an upturn in exports.⁷ Productivity played a major role in sparking growth. Productivity in the manufacturing sector increased 4.3 percent and in durable goods manufacturing productivity grew 6.7 percent.⁸ The strong annual productivity gains have played a key role in absorbing wage increases in recent years, thus keeping inflation rates low.

Canada

In Canada the economy grew 1.7 percent in 2003 and is expected to grow by 2.6 percent in 2004, according to the IMF, with the outlook largely dependent on U.S. growth and on Canada’s trade and financial linkages with the United States. The economic slowdown in 2003 was attributed in part to the sharp appreciation of the Canadian dollar exchange rate and a decline in meat exports due to the discovery of bovine spongiform encephalopathy (BSE, commonly called “mad cow” disease) and to the health crisis involving Severe Acute Respiratory Syndrome (SARs). The appreciation of the Canadian dollar weakened exports and strengthened imports. SARs restricted tourism and the discovery of BSE reduced beef exports. Household spending remained relatively robust supported by low interest rates, and fiscal policy easing. Economic activity is expected to increase in 2004, supported by economic strengthening in the United States and easier monetary conditions, following the Bank of Canada’s lowering official interest rates in mid-2003. The current account surplus was 1.9 percent of GDP in 2003.

Europe

In the euro area, economic projections by the OECD and the IMF forecast a deeper and more prolonged slowdown, but show tentative signs of a turnaround. GDP grew by a meager 0.5 percent in 2003.⁹ Modest growth since late 2001 has been led

⁶ “Monetary Policy Report to the Congress,” submitted on Feb. 11, 2004, Federal Reserve Bulletin, at www.federalreserve.gov/boarddocs/hh/2004/february/ReportSection1.htm.

⁷ U.S. Department of Commerce, “Gross Domestic Product: Fourth Quarter 2003,” BEA 04-04, found at www.bea.gov/bea/rels.htm.

⁸ U.S. Department of Labor, Bureau of Labor Statistics, USDL 04-119, Productivity and Costs, Preliminary Fourth Quarter and Annual Averages for 2003, found at <http://www.bls.gov/lpc/>.

⁹ OECD, Economic Outlook, and IMF World Economic Outlook, Sept. 2003 and IMF World Economic Outlook, Apr. 2004, table 13.

by slowly rising exports but also reflects sluggish domestic demand across much of the region.

The appreciation of the euro in effective terms may have contributed to the 2003 downturn by adversely affecting the trade balance and profit margins of trading sectors. Exports of goods slowed sharply reflecting weaker global demand and the appreciation of the euro. The fall in imports growth reflected the downturn in domestic demand. As exports declined more than imports, the trade surplus declined. Although monetary policy has been eased considerably since the start of 2003, the appreciation of the euro has taken back most of the resulting demand stimulus of reduced interest rates. Nevertheless, divergences in economic developments in individual euro-area economies persist across the region, reflecting differences in the impact of recent global shocks, from higher oil prices and weaker world trade, differences in fiscal pressures, and underlying structural conditions.

Latin America

According to the IMF, a tentative economic recovery is emerging in Latin America, although to different degrees among countries. The upturn depends on the global economic recovery, increased exports, substantial exchange rate depreciation, and improved economic and political fundamentals in some regions.

For the Western Hemisphere, GDP grew by 1.7 percent in 2003. Inflation was 10.6 percent in 2003. The current account surplus was 0.2 percent of GDP in 2003. In Mexico real GDP grew by 1.5 percent 2003 A strong recovery in exports to the United States and a pick-up in investment helping the economic recovery. Access to international capital markets on favorable terms increased foreign investment inflows and eased downward pressures on exchange rates. Strong capital inflows reflect the impact of the North American Free Trade Agreement (NAFTA) on direct investment. The current account deficit reached about 1.9 percent of GDP in 2003. Mexico's consumer price inflation in 2003 was 4.5 percent.¹⁰

Asia

In Asia, economic activity picked up markedly in 2003, with industrial production and exports rebounding. According to the IMF published reports, because of a pickup in domestic demand supported by macroeconomic policies, regional GDP grew by 7.2 percent in 2003 and is projected to grow 6.8 percent in 2004. However, the outlook depends to a large extent on growth in the United States and Europe; a loss of momentum in the Information Technology (IT) sector; and also on the political situation in the Middle East, which has resulted in an increase in oil prices. Most countries retain access to international capital markets. However, greater foreign exchange-rate flexibility is required to reduce the risk of international financial crisis, make domestic growth less dependent on global business cycles, and help to resolve global imbalances.

¹⁰ IMF World Economic Outlook, Vol. 2005/No. V December April 2004, table 1-6.

Japan

In Japan, the economic recovery in the first half of 2003 was underpinned by a low level of inventories, an and increase in business investment and exports. Japan's real GDP grew 2.7 percent in 2003 and is projected to grow 1.8 percent in 2004. The low level of inventories stimulated increased production and the low yen value boosted exports. Japan's growth is supported by rising domestic demand and investment. Final domestic demand grew 2.0 percent in 2003 following a decline of 0.2 percent in the previous year. Gross fixed investment rose 4.4 percent in 2003 but was projected to increase at a slower rate in 2004.¹¹ Despite increased investment and public spending, deflation persisted reaching 0.2 percent when measured by consumer prices, and 2.5 percent when measured by the GDP deflator. The unemployment rate remained historically high at 5.3 percent in 2003.

China

In China, real GDP grew about 8.4 percent in 2003, and is expected to continue growing after a slowdown attributable to outbreaks of SARs. The strong growth has been driven by domestic demand and by investment. Export growth, however, was accompanied by a stronger growth in imports. As a consequence, the contribution of net exports to output has been small and has led to a fall in the current account surplus. The current account surplus as a percent of GDP declined to 1.9 percent in 2003 and is expected to decline to 0.6 percent in 2004. However, overall activity remains strong led by buoyant private consumption and strong public investment. Business capital spending has emerged as a new driver of growth. Investment has been particularly strong in automobiles, iron and steel, metallurgy, textiles, and high-tech industries. China's near-term vulnerability to external shocks is limited both by its high level of foreign reserves and by strong inflows of foreign direct investment. The key economic challenge, which has become more urgent with China's entry into the World Trade Organization, remains strengthening of the banking sector, which despite recent loan transfers to asset management companies, continues to be burdened by high levels of non-performing loans.¹²

Africa

The IMF reported GDP growth in sub-Saharan Africa at 4.1 percent in 2003 and projected growth at 5.4 percent in 2004, underpinned by favorable developments in non-oil commodity prices, as well as debt relief under the heavily indebted poor countries (HIPC) initiative. Improved macroeconomic policies in some countries also played a crucial role. However, external current account deficits in many countries in

¹¹ Ibid., pp. 23-25; and OECD Economic Outlook, 2003/2, no.74, Dec., pp. 41-43, "Japan: Demand" and output table, financial indicators, and demand and output tables.

¹² Ibid., p. 33.

sub-Saharan Africa remain relatively high, reflecting in part high debt levels, low rates of savings and low per capita incomes and structural impediments to economic diversification.¹³

U.S. Merchandise Trade in 2003

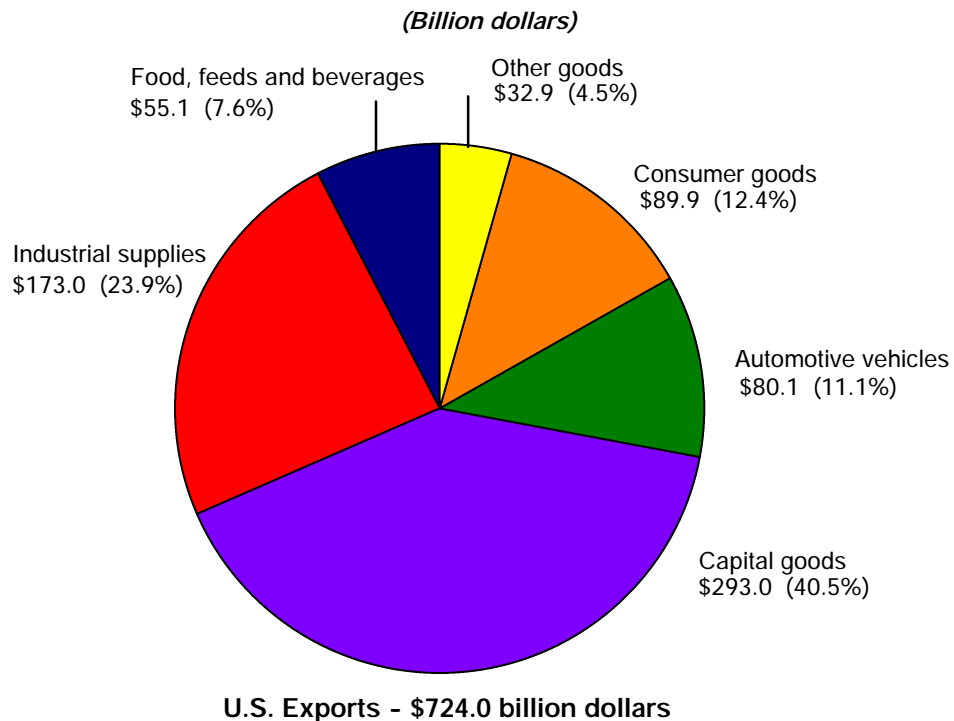
In 2003, the United States ranked as the world's largest merchandise exporter and importer, followed by Germany and Japan. U.S. merchandise exports (based on U.S. Census data) were \$724.0 billion in 2003, compared with merchandise exports of \$693.1 billion in 2002; merchandise imports were \$1,259.7 billion, up from \$1,161.4 billion in 2002. The U.S. merchandise trade deficit with the world was \$535.7 billion in 2003, up from \$468.3 billion in 2002. The merchandial trade deficit was modestly offset by a services trade surplus of \$28.2 billion in 2003. This services trade surplus is projected to decreased to \$9.2 billion in 2004. The majority of U.S. exports consisted of capital goods, which accounted for 40.5 percent of total U.S. exports in 2003, followed by industrial supplies (23.9 percent); consumer goods (12.4 percent); automotive vehicles (11.1 percent); foods, feeds, and beverages (7.6 percent); and all other goods (4.5 percent). The majority of U.S. imports consisted of consumer goods, which accounted for 26.5 percent of total U.S. imports, followed by industrial supplies (25.1 percent); capital goods (23.5 percent); automotive vehicles (16.7 percent); and food, feeds, and beverages (4.4 percent). The category "all other goods" accounted for 3.8 percent of total U.S. imports (see figure 1-1).

Figure 1-2 shows U.S. merchandise exports, imports, and trade balances with major trading partners. Leading U.S. exports to and imports from these major U.S. trading partners are highlighted in the appendix. In 2003, U.S. trade with NAFTA countries accounted for about 32.0 percent of total U.S. exports and imports. NAFTA accounted for \$95.0 billion, or 17.7 percent of the total U.S. trade deficit of \$537.7 billion in 2003. Canada accounted for \$54.6 billion, or 10.2 percent of the total U.S. deficit, and Mexico accounted for \$40.6 billion or 7.6 percent of the total U.S. deficit. The U.S. trade deficit with China was \$124.0 billion followed by the EU at \$94.3 billion, Japan at \$66.0 billion, Taiwan at \$14.1 billion, and Korea at \$13.0 billion. The U.S. trade deficit with China and Japan combined totaled \$190.0 billion or about 35.5 percent of the total U.S. trade deficit on goods.¹⁴

¹³ IMF, op. cit, pp. 47-50.

¹⁴ Data in this section were taken from Commerce News FT900 (03-12) BEA-04-07 might differ from data with the statistical appendix due to several adjustments.

Figure 1-1
U.S. merchandise trade with the world, by product sectors, 2003

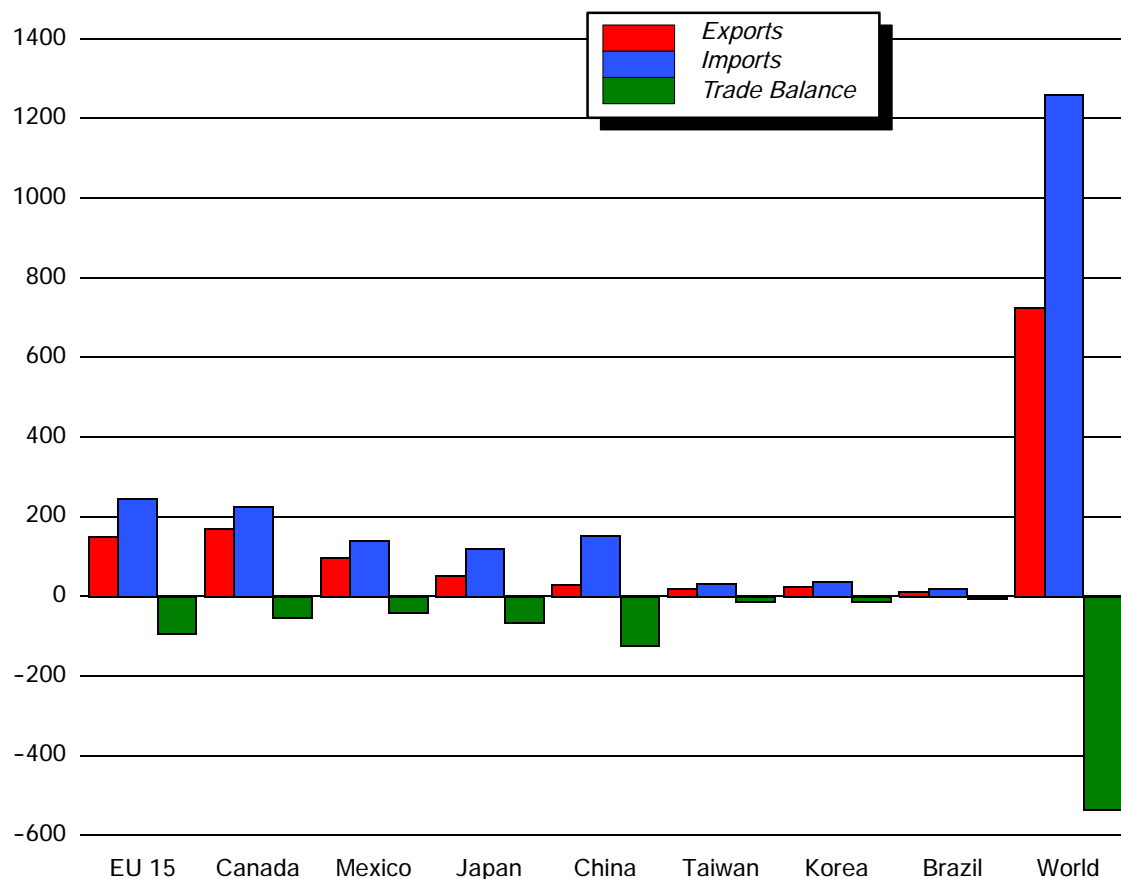


Note.—Because of rounding, figures may not exactly equal totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce; FT900, BEA-04-04, Dec. 2003 (03-12).
 Statistics may not match with data in the appendix due to certain adjustments.

Figure 1-2
U.S. merchandise exports, imports, and trade balances with major trading partners, 2003

Billion dollars



<i>Major trading partners</i>	<i>Exports</i>	<i>Imports</i>	<i>Trade balance</i>
	<i>Billion dollars</i>		
EU (15)	150.6	244.8	-94.3
Canada	169.8	224.2	-54.4
Mexico	97.5	138.1	-40.6
Japan	52.1	118.0	-66.0
China	28.4	152.4	-124.0
Taiwan	17.5	31.6	-14.1
Korea	24.1	37.0	-13.0
Brazil	11.2	17.9	-6.7
World	724.0	1259.7	-535.7

Note.—Because of rounding, and omissions figures may not exactly equal totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce; FT900, BEA-04-04, Dec. 2003 (03-12). Statistics may not match with data in the appendix due to certain adjustments.

U.S. Balance of Payments Position

The U.S. current account deficit (the combined balances on trade in goods, services, and investment income and net unilateral transfers) increased 12.7 percent to \$541.8 billion in 2003, from \$480.9 billion in 2002, according to the Bureau of Economic Analysis of the U.S. Department of Commerce (see table 1-3). An increase in the deficit on goods and services, and in net outflow for unilateral current transfers, accounted for the increase. In contrast the balance on income shifted to a surplus in 2003 from a deficit in 2002.¹⁵

Table 1-3
Summary of U.S. international transactions, 2002-03

(Billion dollars)

Item	2002	2003
Merchandise exports	681.9	713.8
Merchandise imports	-1164.8	-1263.2
Balance on merchandise trade	-482.9	-549.4
Services exports	292.2	304.9
Services imports	-227.4	-245.7
Balance on services	64.8	59.3
Balance on goods and services	-418.0	-490.2
Income receipts on U.S. assets abroad	255.5	275.5
Income payments on foreign assets in the United States	-259.5	-258.9
Balance on investment income	-4.0	16.6
Balance on goods, services, and income	-422.0	-473.6
Unilateral transfers	-58.9	-68.3
Balance on current account	-480.9	-541.8
U.S. assets abroad, net, outflow (-)	-179.0	-277.7
Foreign assets in the U.S., net, inflow (+)	707.0	856.7
Net capital inflows (+), outflows (-)	528.0	579.0

Source: Bureau of Economic Analysis, *U.S. International Transactions, Fourth Quarter and Year 2003*, BEA 04-11. Details may not add to totals because of rounding. Figures are on balance-of-payments basis. Exports of goods are adjusted for timing, valuation, and coverage to balance-of-payments basis, excluding exports under U.S. military agency sales. Exports of services include some goods that cannot be separately identified from services.

Agricultural and nonagricultural products exports increased. More than half of the increase in nonagricultural products was attributable to a rise in industrial supplies and materials; and the next largest increase was in consumer goods. About one-third of the increase in goods imports was attributable to an increase in petroleum and petroleum products. All major categories of nonpetroleum imports increased with the largest increases in consumer goods and industrial supplies and materials.

The U.S. surplus on services trade decreased to \$59.3 billion in 2003 from \$64.8 billion in 2002. Services exports increased to \$304.9 billion from \$292.2 billion while imports increased to \$245.7 billion from \$227.4 billion. Increases in exports of the "other private services" category (such as business, professional, and technical and financial services), and in royalties and license fees, and in "other" transportation—such as freight and port services—were partly offset by decreases in travel and in passenger fares. The increase in services imports was in "other private services," "other transportation," and in direct defense expenditure.

¹⁵ U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. International Transactions Fourth Quarter and Year 2003*, BEA 04-11, available at BEA's website at www.bea.gov/bea/rels.htm.

The balance on income shifted to a surplus of \$16.6 billion from a deficit of \$4.0 billion in 2002 as income receipts on U.S.-owned assets abroad increased to \$275.5 billion from \$255.5 billion in 2002, an increase of \$20.0 billion, while income payments declined to \$258.9 billion from \$259.5 billion. The increase in income receipts was more than accounted for by an increase in direct investment receipts. Direct investment income receipts increased to \$175.5 billion from about \$142.9 billion.

Income payments on foreign-owned assets in the United States decreased to \$258.9 billion from \$259.5 billion. Direct investment payments increased to \$71.5 billion from \$49.5 billion in 2002. "Other" private payments—which consist of interest and dividends and U.S. Government payments—both decreased.

U.S.-owned assets abroad increased by \$277.7 billion in 2003, compared with an increase of \$179.0 billion in 2002. Foreign-owned assets in the United States increased by \$856.7 billion in 2003 compared with an increase of \$707.0 billion in 2002.

Net inflows of foreign capital in the United States increased by \$579.0 billion from \$528.0 billion in 2002. In 2003, the U.S. dollar depreciated 12 percent on a trade-weighted yearly average basis against the Group of Seven major currencies.¹⁶

¹⁶ The G-7 includes the United States, Canada, Japan, Germany, France, the United Kingdom and Italy.